

CITY OF INGALLS, KANSAS

WATER FUND

FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT
YEAR ENDED DECEMBER 31, 2011

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Ingalls, Kansas

We have audited the accompanying financial statements of the Water Fund of the City of Ingalls, Kansas, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Water Fund and do not purport to, and do not, present fairly the financial position of the City of Ingalls, Kansas, as of December 31, 2011, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described more fully in Note A, the City of Ingalls, Kansas, has prepared these financial statements using accounting practices prescribed or permitted by the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material.

Because of the condition of the records relating to billing for water usage, we were not able to satisfy ourselves as to the amounts recorded as receipts in the Water Fund beyond deposits made to the bank.

Further, in our opinion, because of the effects of the matter discussed in the second preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Water Fund of the City of Ingalls, Kansas as of December 31, 2011, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

In our opinion, except for the effects, if any, relating to the condition in the second preceding paragraph, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the Water Fund of the City of Ingalls, Kansas, as of December 31, 2011, and its cash receipts and expenditures, and budgetary results for the year then ended on the basis of accounting described in Note A.

Kennedy McKee & Company LLP

June 20, 2012

CITY OF INGALLS, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

Year ended December 31, 2011

<u>Fund</u>	<u>Beginning unencumbered cash balance</u>	<u>Prior year canceled encumbrances</u>	<u>Cash receipts</u>	<u>Expenditures</u>	<u>Ending unencumbered cash balance</u>	<u>Add encumbrances and accounts payable</u>	<u>Ending cash balance</u>
Proprietary fund type:							
Enterprise:							
Water	<u>\$ 187,893</u>	<u>\$ -</u>	<u>\$ 150,673</u>	<u>\$ 116,422</u>	<u>\$ 222,144</u>	<u>\$ -</u>	<u>\$ 222,144</u>
Composition of cash balance:							
Checking							\$ 112,223
Savings account							81,674
Certificates of deposit							<u>28,247</u>
Total cash							<u>\$ 222,144</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF INGALLS, KANSAS

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

<u>Fund</u>	<u>Certified budget</u>	<u>Adjustment for qualifying budget credits</u>	<u>Total budget for comparison</u>	<u>Expenditures chargeable to current year</u>	<u>Variance favorable (unfavorable)</u>
Water	<u>\$ 154,642</u>	<u>\$ -</u>	<u>\$ 154,642</u>	<u>\$ 116,422</u>	<u>\$ 38,220</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF INGALLS, KANSAS

WATER FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:			
Customer charges	\$ 150,152	\$ 70,000	\$ 80,152
Connection fees	-	1,000	(1,000)
Interest income	521	400	121
	<u>150,673</u>	<u>\$ 71,400</u>	<u>\$ 79,273</u>
Expenditures:			
Salaries and wages	-	\$ 15,000	\$ 15,000
Repairs and maintenance	10,107	9,000	(1,107)
Utilities	1,144	8,000	6,856
Water supplies	26,546	5,000	(21,546)
Testing fees	244	2,500	2,256
Postage	-	1,000	1,000
Debt service	10,742	10,742	-
Capital outlay	-	100,000	100,000
Professional fees	-	900	900
Office expenses	116	2,500	2,384
Transfers	67,523	-	(67,523)
Total expenditures	<u>116,422</u>	<u>\$ 154,642</u>	<u>\$ 38,220</u>
Receipts over (under) expenditures	34,251		
Unencumbered cash, beginning of year	<u>187,893</u>	<u>\$ 149,420</u>	<u>\$ 38,473</u>
Unencumbered cash, end of year	<u>\$ 222,144</u>	<u>\$ 66,178</u>	<u>\$ 155,966</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF INGALLS, KANSAS
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies applied in the preparation of the accompanying financial statements is presented to assist in understanding the City's Water Fund financial statements, which are presented in conformity with the cash basis and budget laws of the State of Kansas. The financial statements and notes are the representation of the City's management, which is responsible for their integrity and objectivity.

1. Financial reporting entity

The City of Ingalls is a municipal corporation governed by an elected mayor and five-member council. These financial statements include only the financial data of the Water Fund and do not include the data for all the departments and funds of the City, as a legal entity. The City has no component units.

2. Fund accounting

The accounts of the City are organized on the basis of funds. In governmental accounting, a fund is designated as a sum of money or other resources segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations and constituting an independent fiscal and accounting entity.

City resources are allocated to and for individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

The Water Fund is an enterprise fund which is categorized as a proprietary fund type. This fund is used to account for operations where it is the stated intent that the costs of providing that service to the general public on a continuing basis be financed or recovered primarily through user charges.

3. Basis of accounting

Statutory Basis of Accounting. The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund and an expenditure is charged in the fund from which the transfer is made.

The City has adopted a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Basis of accounting (continued)

Departure from accounting principles generally accepted in the United States of America. The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. A statement of net assets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance is not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences is not presented in the financial statements.

4. Budgetary information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in the official newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for 2011.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. A budget comparison statement is presented showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Cash and Investments

The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in interest bearing deposits and disclosed as part of the City's deposits.

6. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and medical needs of employees. The City purchases commercial insurance to cover property, liability, and worker's compensation claims. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

B. DEPOSITS AND INVESTMENTS

Policies. The City has no formal deposit and investment policies; however it does follow state statutes. K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds to have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices. State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk - deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. At year-end the carrying amount of the City's Water Fund deposits, including certificates of deposit, was \$222,144. The bank balance was \$222,144. The bank balance was held by one bank resulting in concentration of credit risk. The bank balance of all of the City's deposits was \$471,130, all of which was covered by federal depository insurance.

C. LONG-TERM DEBT

Changes in long-term liabilities for the entity for the year ended December 31, 2011, were as follows:

<u>Issue</u>	<u>Balance beginning of year</u>	<u>Additions</u>	<u>Reductions/ payments</u>	<u>Balance end of year</u>	<u>Interest paid</u>
Loans with the Kansas Department of Health and Environment:					
Kansas Public Water Supply					
Issued September 29, 2003					
In the amount of \$155,346					
At interest rates of 3.78%					
Maturing August 1, 2024	\$ 115,951	\$ -	\$ 6,419	\$ 109,532	\$ 4,323
Water Pollution Control					
Issued August 31, 2005					
In the amount of \$341,736					
At interest rate of 2.83%					
Maturing September 1, 2023	<u>271,797</u>	<u>-</u>	<u>18,225</u>	<u>253,572</u>	<u>7,564</u>
Total long-term debt	<u>\$ 387,748</u>	<u>\$ -</u>	<u>\$ 24,644</u>	<u>\$ 363,104</u>	<u>\$ 11,887</u>

Current maturities of loans and interest for the next five years and in five year increments through maturity are as follows:

	<u>Principal due</u>	<u>Interest due</u>	<u>Total due</u>
2012	\$ 25,409	\$ 11,122	\$ 36,531
2013	26,197	10,334	36,531
2014	27,010	9,521	36,531
2015	27,850	8,681	36,531
2016	28,715	7,816	36,531
2017-2021	157,554	25,101	182,655
2022-2024	<u>70,369</u>	<u>3,244</u>	<u>73,613</u>
Total	<u>\$ 363,104</u>	<u>\$ 75,819</u>	<u>\$ 438,923</u>

D. INTERFUND TRANSACTIONS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources to provide services, purchase and construct assets, and service debt. The governmental funds financial statements generally reflect such transactions as transfers.

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Statutory authority</u>	<u>Amount</u>
Water	General	K.S.A. 12-825d	\$ 67,523

E. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 20, 2012, the date on which the financial statements were available to be used. Management's evaluation concluded that there are no subsequent events that are required to be recognized or disclosed in these financial statements.